

Message Text

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PAGE 01 OTTAWA 00424 01 OF 02 272216Z
ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-11 H-01 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
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P 272202Z JAN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 6120

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 00424

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: ENERGY: OIL DEPENDENCY INQUIRY

REF: A. 77 OTTAWA 9815; B. 77 OTTAWA 9835

1. SUMMARY: GOC HAS ANNOUNCED THAT NATIONAL ENERGY BOARD (NEB) WILL CONDUCT INQUIRY, WITH NATIONWIDE PUBLIC HEARINGS BEGINNING IN MAY, TO DETERMINE COUNTRY'S DEGREE OF DEPENDENCY ON IMPORTED OIL OVER NEXT 10 TO 15 YEARS AND LOCATION OF IMPORT TERMINALS. CRITICAL ISSUE IT WILL ADDRESS IS NATIONAL NEED FOR WEST COAST OIL PORT. NEB WILL DELAY KITIMAT HEARINGS UNTIL INQUIRY IS CONCLUDED. GIVEN SHARP POLITICAL OPPOSITION TO PROPOSED PROJECT ON WEST COAST, INQUIRY IS NECESSARY FIRST STEP TO SERIOUS CONSIDERATION OF KITIMAT; GOC MUST DEMONSTRATE CANADIAN INTEREST IF KITIMAT IS TO FLY. INQUIRY WILL INEVITABLY CONFRONT NATIONAL UNITY QUESTION: SHOULD PART OF DWINDLING DOMESTIC OIL SUPPLY CONTINUE TO FLOW TO BRITISH COLUMBIA OR BE SHIPPED EAST TO REDUCE IMPORT DEPENDENCY OF QUEBEC AND MARITIMES? SINCE OIL SUPPLY PROBLEM TOUCHES ALMOST ALL ENERGY SUPPLY ISSUES, DEFINING SCOPE OF STUDY COULD PROVE TO BE DIFFICULT. COPING WITH THIS POLITICALLY-LOADED, COMPLEX ISSUE IN CONTEXT OF NATION-
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PAGE 02 OTTAWA 00424 01 OF 02 272216Z

WIDE PUBLIC HEARINGS WHILE NEB IS OTHERWISE OCCUPIED WITH GETTING GAS PIPELINE PROJECT MOVING IS TALL ORDER. EMBASSY DOUBTS NEB WILL BE ABLE TO DELIVER ITS CONCLUSIONS BY ANNOUNCED SEPTEMBER 1978 DEADLINE. END SUMMARY.

2. IN JANUARY 16 LETTER TO NEB CHAIRMAN JACK STABBACK, ENERGY, MINES AND RESOURCES (EMR) MINISTER ALASTAIR

GILLESPIE ASKED BOARD TO STUDY CANADA'S DEPENDENCY ON IMPORTED OIL ON BOTH EAST AND WEST COASTS AND VULNERABILITY TO POSSIBLE MEDIUM OR LONG-TERM WORLD OIL SHORTAGES.

3. STUDY, REQUESTED UNDER SECTION 22 OF NEB ACT, WILL ANALYZE CANADA'S OIL IMPORT DEPENDENCY INTO 1990'S. NOTING THAT CANADA MAY FACE DIFFICULT DECISION AS TO HOW TO ALLOCATE DIMINISHING DOMESTIC SUPPLIES BETWEEN EASTERN AND WESTERN MARKET AREAS, AND THAT NOT ONLY MIGHT SARNIA-MONTREAL PIPELINE BE REVERSED BUT FLOW TO B.C. THROUGH TRANSMOUNTAIN PIPELINE COULD BE DIMINISHED, GILLESPIE ASKED BOARD TO ADVISE HIM ON EXPECTED SIZE, LOCATION AND TIMING OF PETROLEUM PORTS OF ENTRY WHERE SIGNIFICANT IMPORTS WILL BE REQUIRED.

4. STABBACK REPLIED TO GILLESPIE JANUARY 25 NOTING THAT IN ORDER TO ASSURE ITSELF THAT REPORT IS AS EXHAUSTIVE AS POSSIBLE, NEB INTENDS TO HOLD PUBLIC INQUIRY IN WHICH VARIOUS ENERGY SECTOR COMPONENTS, PROVINCES AND PUBLIC WILL BE HEARD. HEARINGS WILL BE HELD ACROSS CANADA COMMENCING LATE MAY. STABBACK SAID HE EXPECTED TO REPORT TO GILLESPIE IN SEPTEMBER.

5. BOARD WILL NOT PROCEED WITH KITIMAT HEARINGS UNTIL CONCLUSION OF OIL SUPPLY AND DEMAND INQUIRY.
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PAGE 03 OTTAWA 00424 01 OF 02 272216Z

6. COMMENT: ANNOUNCEMENT OF OIL SUPPLY AND DEMAND INQUIRY IS A FOLLOW-UP ON PREVIOUSLY REPORTED GOC INTENT (SEE REFTEL A) TO RESOLVE QUESTION OF NATIONAL INTEREST IN WEST COAST OIL PORT AFTER THOMPSON COMMISSION FOUNDERED ON THIS POINT. GIVEN WEST COAST POLITICAL BACKLASH AGAINST KITIMAT, INQUIRY IS NECESSARY FIRST STEP TO SERIOUS CONSIDERATION OF PROPOSED PROJECT; CANADIAN INTEREST MUST BE DEMONSTRATED OR PROJECT WILL NOT GO FORWARD. AS EMBASSY NOTED THEN (REFTEL B) THIS PUTS NEB IN TOUGH SPOT. DECISION WHETHER TO LOCATE MAJOR OIL IMPORT FACILITY ON WEST OR EAST COAST DOES NOT NECESSARILY FLOW FROM LOGIC OF MARKET ECONOMICS. ULTIMATELY, IT WILL BE POLICY CHOICE BASED ON DELICATE BALANCING OF NATIONAL UNITY ISSUES: CONTINUING TO SUPPLY B.C. FROM DOMESTIC SOURCES VS. SEEKING TO MINIMIZE QUEBEC DEPENDENCY ON OFFSHORE SOURCES.

7. STUDY WILL POSE CONCEPTUAL AND METHODOLOGICAL DIFFICULTIES AS WELL. OIL SHORTFALL PROBLEM IS LINKED TO QUESTION OF POSSIBLE SUBSTITUTE FUELS. SINCE NATURAL GAS IS MOST LIKELY SUBSTITUTE, OIL SUPPLY IS IN TURN LINKED TO QUESTIONS ABOUT TRADE-OFFS BETWEEN INCREASED GAS EXPORTS

AND EXTENDING NATIONAL GAS DISTRIBUTION SYSTEM TO MARITIMES. BECAUSE MARITIMES ARE ONLY POSSIBLE DOMESTIC MARKET FOR LNG FROM HIGH ARCTIC, GOC'S ICE-BREAKING TANKER SCHEME AND INTEREST IN TENNECO PROJECT ARE ALSO ENGAGED HERE. THUS, OIL SUPPLY-AND-DEMAND STUDY, UNLESS ITS TERMS ARE SHARPLY DEFINED, HAS POTENTIAL FOR DRAGGING ALONG JUST ABOUT EVERY UNRESOLVED CANADIAN ENERGY POLICY ISSUE.

8. MAINTAINING SHARP FOCUS ON KEY ISSUES AND KEEPING SCOPE OF STUDY WITHIN MANAGEABLE BOUNDS, ALL IN CONTEXT OF CROSS-COUNTRY PUBLIC HEARINGS ON POLITICALLY-LOADED SUBJECT, WILL SERIOUSLY TAX NEB'S POLITICAL ACUMEN, ANALYTICAL

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PAGE 01 OTTAWA 00424 02 OF 02 272217Z
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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 00424

SKILLS AND ORGANIZATIONAL ABILITY. IT REMAINS TO BE SEEN WHETHER BOARD CAN MANAGE ALL THIS AND STILL MAKE THE SEPTEMBER DEADLINE WHEN MANY OF ITS KEY PERSONNEL WILL BE DEEPLY INVOLVED WITH ALASKA HIGHWAY GAS PIPELINE START-UP. ENDERS

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